

TOWNSHIP OF FELCH
Dickinson County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Felch	County Dickinson
Audit Date March 31, 2006	Opinion Date July 11, 2006	Date Accountant Report Submitted to State: July 21, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature <i>Campbell, Kusterer & Co., P.C.</i>			

TOWNSHIP OF FELCH
Dickinson County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

July 11, 2006

To the Township Board
Township of Felch
Dickinson County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Felch, Dickinson County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Felch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Felch, Dickinson County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & CO., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF FELCH
Dickinson County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Felch covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$564,162.37 for governmental activities. Overall total capital assets remained the same.

Overall revenues were \$215,864.93. Governmental activities had a \$22,758.14 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, and the Current Tax Collection Fund.

TOWNSHIP OF FELCH
Dickinson County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Expenditures for the year were \$182,268.23.

Our cash position in the governmental activities remains strong. Out external debt is \$0.00.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for all of the Township's governmental services. The most significant is Fire Protection which incurred expenses of \$36,589.80.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0.00 in capital assets.

The Township has no long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township at N 8302 Norway Lake Rd, Iron Mountain, Michigan 49901.

TOWNSHIP OF FELCH
Dickinson County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	266 357 83
Taxes receivable	<u>3 761 60</u>
Total Current Assets	<u>270 119 43</u>
NON-CURRENT ASSETS:	
Capital Assets	459 382 62
Less: Accumulated Depreciation	<u>(164 026 36)</u>
Total Non-current Assets	<u>295 356 26</u>
TOTAL ASSETS	<u>565 475 69</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>1 313 32</u>
Total Current Liabilities	<u>1 313 32</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>1 313 32</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	295 356 26
Unrestricted	<u>268 806 11</u>
Total Net Assets	<u>564 162 37</u>
TOTAL LIABILITIES AND NET ASSETS	<u>565 475 69</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FELCH
Dickinson County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

		<u>Program Revenue</u>		<u>Governmental Activities</u>
				<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS				
Governmental Activities:				
Legislative	5 968 49	-	-	(5 968 49)
General government	103 200 38	12 825 00	-	(90 375 38)
Public safety	47 467 16	-	25 208 00	(22 259 16)
Public works	23 157 04	-	-	(23 157 04)
Culture and recreation	<u>13 313 72</u>	<u>-</u>	<u>-</u>	<u>(13 313 72)</u>
Total Governmental Activities	<u>193 106 79</u>	<u>12 825 00</u>	<u>25 208 00</u>	(155 073 79)
General Revenues:				
Property taxes				40 505 54
Other taxes				61 802 16
State revenue sharing				52 693 26
Interest				2 838 36
Miscellaneous				<u>19 992 61</u>
Total General Revenues				<u>177 831 93</u>
Change in net assets				22 758 14
Net assets, beginning of year				<u>541 404 23</u>
Net Assets, End of Year				<u>564 162 37</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FELCH
Dickinson County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2006

General

Assets

Cash in bank	266 228 73
Taxes receivable	3 761 60
Due from other funds	<u>129 10</u>
Total Assets	<u>270 119 43</u>

Liabilities and Fund Equity

Liabilities	
Accounts payable	1 313 32
Total liabilities	<u>1 313 32</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>268 806 11</u>
Total fund equity	<u>268 806 11</u>
Total Liabilities and Fund Equity	<u>270 119 43</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FELCH
Dickinson County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	268 806 11
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	459 382 62
Accumulated depreciation	<u>(164 026 36)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>564 162 37</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FELCH
Dickinson County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General</u>
Revenues:	
Property taxes	40 505 54
Licenses and permits	61 802 16
State revenue sharing	25 208 00
Charges for services – PTAF	52 693 26
Charges for services – cemetery	12 500 00
Interest	325 00
Special assessments	2 838 36
Miscellaneous	<u>19 992 61</u>
Total revenues	<u>215 864 93</u>
Expenditures:	
Legislative:	
Township Board	5 968 49
General government:	
Supervisor	5 049 00
Elections	933 86
Assessor	14 151 95
Clerk	7 287 77
Board of Review	425 57
Treasurer	10 995 69
Building and grounds	33 802 44
Cemetery	2 243 08
Unallocated	18 576 46
Public safety:	
Planning and zoning	467 35
Liquor law enforcement	360 00
Fire protection	36 589 80
Ambulance	10 050 01
Public works:	
Street lights	6 322 25
Sanitation	16 834 79
Culture and recreation:	
Recreation	<u>12 209 72</u>
Total expenditures	<u>182 268 23</u>
Excess of revenues over expenditures	33 596 70
Fund balances, April 1	<u>235 209 41</u>
Fund Balances, March 31	<u>268 806 11</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FELCH
Dickinson County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 33 596 70

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(10 838 56)
Capital Outlay	<u>-</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>22 758 14</u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FELCH
Dickinson County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Felch, Dickinson County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Felch. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF FELCH
Dickinson County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Investments

Investments are stated at market.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 1.8513 mills, and the taxable value was \$22,051,711.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF FELCH
Dickinson County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building	25-50 years
Equipment	10-25 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$295,256.26

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF FELCH
Dickinson County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>266 357 83</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

TOWNSHIP OF FELCH
Dickinson County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

	<u>Bank Balances</u>
Insured (FDIC)	117 250 43
Uninsured and Uncollateralized	<u>149 402 40</u>
Total Deposits	<u>266 652 83</u>

The Township did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	46 978 62	-	-	46 978 62
Building	389 065 00	-	-	389 065 00
Equipment	<u>23 339 00</u>	<u>-</u>	<u>-</u>	<u>23 339 00</u>
Total	459 382 62	-	-	459 382 62
Accumulated Depreciation	<u>(153 187 00)</u>	<u>(10 838 56)</u>	<u>-</u>	<u>(164 026 36)</u>
Net Capital Assets	<u>306 195 62</u>	<u>(10 838 56)</u>	<u>-</u>	<u>295 356 26</u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full-time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2006, was \$2,755.59.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Felch does not issue building permits. Building permits are issued by the County of Dickinson.

TOWNSHIP OF FELCH
Dickinson County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>129 10</u>	Current Tax Collection	<u>129 10</u>
Total	<u>129 10</u>	Total	<u>129 10</u>

TOWNSHIP OF FELCH
Dickinson County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	46 500 00	46 500 00	40 505 54	(5 994 46)
Other taxes	61 800 00	61 800 00	61 802 16	2 16
Federal grants	25 208 00	25 208 00	25 208 00	-
State revenue sharing	51 000 00	51 000 00	52 693 26	1 693 26
Charges for services:				
Property tax administration	5 050 00	5 050 00	12 500 00	7 450 00
Cemetery	100 00	100 00	326 00	225 00
Interest	2 200 00	2 200 00	2 838 36	638 36
Miscellaneous	13 552 00	13 552 00	19 992 61	6 440 61
Total revenues	205 410 00	205 410 00	215 864 93	10 454 93
Expenditures:				
Legislative:				
Township Board	6 600 00	6 600 00	5 968 49	(631 51)
General government:				
Supervisor	5 150 00	5 150 00	5 049 00	(101 00)
Elections	1 750 00	1 750 00	933 86	(816 14)
Assessor	14 325 00	14 325 00	14 151 95	(173 05)
Clerk	7 550 00	7 550 00	7 287 77	(262 23)
Board of Review	1 200 00	1 200 00	425 57	(774 43)
Treasurer	11 525 00	11 525 00	10 995 69	(529 31)
Building and grounds	36 650 00	36 650 00	33 802 44	(2 847 56)
Cemetery	2 300 00	2 300 00	2 243 08	(56 92)
Unallocated	24 420 00	24 420 00	18 576 46	(5 843 54)
Public safety:				
Planning and zoning	620 00	620 00	467 35	(152 65)
Liquor law and enforcement	360 00	360 00	360 00	-
Fire protection	36 808 00	36 808 00	36 589 80	(218 20)
Ambulance	11 000 00	11 000 00	10 050 01	(949 99)
Public works:				
Street lights	6 650 00	6 650 00	6 322 25	(327 75)
Sanitation	17 000 00	17 000 00	16 834 79	(165 21)
Culture and recreation:				
Recreation	19 700 00	19 700 00	12 209 72	(7 490 28)
Total expenditures	203 608 00	203 608 00	182 268 23	(21 339 77)
Excess (deficiency) of revenues over expenditures	1 802 00	1 802 00	33 596 70	31 794 70
Fund balance, April 1	-	-	235 209 41	235 209 41
Fund Balance, March 31	1 802 00	1 802 00	268 806 11	267 004 11

TOWNSHIP OF FELCH
Dickinson County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Township Board:	
Salaries	1 320 00
Telephone	514 50
Pension	2 755 59
Memberships and dues	688 40
Miscellaneous	690 00
	<u>5 968 49</u>
Supervisor:	
Salary	4 500 00
Salary – Deputy	300 00
Travel	213 00
Miscellaneous	36 00
	<u>5 049 00</u>
Elections:	
Wages	797 25
Miscellaneous	136 61
	<u>933 86</u>
Assessor:	
Salary	13 191 66
Office supplies	486 94
Telephone	60 75
Travel	412 60
	<u>14 151 95</u>
Clerk:	
Salary	6 500 00
Salary - Deputy	300 00
Office supplies	87 27
Travel	400 50
	<u>7 287 77</u>
Board of Review:	
Wages	337 50
Miscellaneous	88 07
	<u>425 57</u>
Treasurer:	
Salary	6 600 00
Salary – Deputy	300 00
Office supplies	941 00
Miscellaneous	54 29
Travel	500 40
Tax roll preparation	2 600 00
	<u>10 995 69</u>
Building and grounds:	
Salary	8 800 00
Operating supplies	3 071 75
Utilities	13 008 25
Repairs and maintenance	8 551 89
Miscellaneous	370 55
	<u>33 802 44</u>

TOWNSHIP OF FELCH
Dickinson County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Cemetery:	
Wages	1 750 00
Supplies	136 85
Miscellaneous	356 23
	<u>2 243 08</u>
Unallocated:	
Community promotion	1 750 00
Insurance	136 85
Payroll taxes	850 87
Legal	527 61
Miscellaneous	3 359 98
	<u>2 243 08</u>
Liquor Law enforcement:	
Wages	<u>360 00</u>
Fire protection:	
Wages	1 200 00
Insurance	648 00
Operating supplies	31 932 45
Telephone	635 43
Miscellaneous	2 173 92
	<u>36 589 80</u>
Ambulance:	
Contracted services	<u>10 050 01</u>
Planning and zoning:	
Salary	340 00
Miscellaneous	127 35
	<u>467 35</u>
Street lighting:	
Utilities	<u>6 322 25</u>
Sanitation:	
Wages	3 094 00
Contracted services	13 420 44
Miscellaneous	320 35
	<u>16 834 79</u>
Recreation:	
Supplies	5 015 16
Memberships and dues	400 00
Repairs and maintenance	6 794 56
	<u>12 209 72</u>
Total Expenditures	<u>182 268 23</u>

TOWNSHIP OF FELCH
Dickinson County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>31 609 61</u>	<u>702 999 21</u>	<u>734 479 72</u>	<u>129 10</u>
<u>Liabilities</u>				
Due to other funds	31 609 61	44 459 24	75 939 75	129 10
Due to others	<u>-</u>	<u>658 539 97</u>	<u>658 539 97</u>	<u>-</u>
Total Liabilities	<u>31 609 61</u>	<u>702 999 21</u>	<u>734 479 72</u>	<u>129 10</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA**

**512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707**

**TEL (989) 894-1040
FAX (989) 894-5494**

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 11, 2006

To the Township Board
Township of Felch
Dickinson County, Michigan

We have audited the financial statements of the Township of Felch for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Felch in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Felch
Dickinson County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Felch began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board
Township of Felch
Dickinson County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants